



California State Senate

STATE CAPITOL
SACRAMENTO, CALIFORNIA
95814

October 24, 2011

Claudia Cappio, Executive Director
California Housing Finance Agency
500 Capitol Mall, Suite 1400
Sacramento, CA 95814

Dear Ms. Cappio:

As you know, our Senate Office of Oversight and Outcomes recently completed a report on your agency's single-family lending policies. The report found that the California Housing Finance Agency's (CalHFA's) policy on rental waivers, adopted in 2010, is forcing some borrowers into foreclosures even though they remain current on their payments, and preventing others from leaving residences that are no longer suitable.

This report further concluded that CalHFA's policy is less flexible than the practices in all but two of the other states contacted by the oversight office. Most other states, while acknowledging Internal Revenue Code requirements, believe that homeowners who occupied their residences in good faith may be extended some flexibility in renting out their properties in light of the severely stressed real estate market. None of these states has been sanctioned by the Internal Revenue Service or seen the tax-exempt status of their housing bonds threatened.

We recognize that CalHFA must meet its obligations to bondholders and comply with applicable laws and regulations. In these challenging times, it must do all it can to remain solvent so it can continue to meet its mission of affordable housing. At the same time, given the extraordinary difficulties faced by homeowners, we request that CalHFA and its Board of Directors revisit its owner-occupancy policy with an eye towards formulating a more flexible approach.

Clearly, many of the borrowers described in the report did not set out to become landlords. Far from making money, these borrowers are accepting significant losses in an attempt to live up to their mortgage commitments. Other borrowers who have gotten married, had children, or started home-based businesses now find themselves stuck in residences that any reasonable person would agree are too small.



It's hard to imagine that lawmakers and the Internal Revenue Service had borrowers like these in mind when they wrote the laws and regulations governing tax-exempt bonds.

We look forward to hearing from you in regards to this policy. And we look forward to working with you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Darrell Steinberg', with a stylized, cursive script.

DARRELL STEINBERG
Senate President pro Tempore

A handwritten signature in black ink, appearing to read 'Mark Desaulnier', with a stylized, cursive script.

MARK DESAULNIER
Chair, Senate Committee on
Transportation & Housing